In press releases issued on September 27 and October 21, 1996, the Debtors disclosed that misrepresentations had been made to the FCC and that other violations had occurred during the licensing process for as many as 400 to 500 authorizations, or approximately 6% to 7%, of their approximately 8,000 local transmission one-way paging stations. The Debtors caused an investigation to be conducted by their outside counsel, and a comprehensive report regarding these matters was provided to the FCC on October 15, 1996. The results of an expanded investigation were submitted to the FCC on November 8, 1996. As discussed below, the Debtors are still in the process of resolving these issues with the FCC.

In November and December of 1996, the Debtors sought to modify payment terms with certain of their larger vendors, some of which had not been paid in accordance with their scheduled payment terms. In the fall of 1996, Motorola, Inc. ("Motorola"), the Debtors' largest supplier of pagers and pager repair parts, informed the Debtors that it would require credit support to assure payment of approximately $35 million past due accounts payable and would refuse to accept orders for products or services from, and refuse to make shipments to, the Debtors pending resolution of the matter. Subsequently, Glenayre Electronics, Inc. ("Glenayre"), the Debtors' primary supplier of paging terminals, transmitters and related parts, and NEC America Inc. ("NEC") and Panasonic Communications & Systems Company ("Panasonic" and, together with Motorola, Glenayre and NEC, the "Key Suppliers"), the Debtors' secondary suppliers of pagers, also made demands on the Debtors for payment of their past due accounts in the aggregate amount of $11.8 million.

On November 1, 1996, the Debtors failed to make a scheduled interest payment of approximately $11.8 million on their 9⅜% Senior Subordinated Notes due November 1, 2007 (the "9⅜% Notes"), which failure was not cured during the thirty day grace period ending November 30, 1996. In addition, in December 1996 and January 1997, the Debtors failed to make scheduled interest payments in the aggregate amount of approximately $13.4 million under the 1995 Credit Agreement.

Negotiations between the Debtors and the Pre-Petition Lenders, the holders of the 9⅜% Notes and certain other outstanding notes (collectively, the "Notes") and the Key Suppliers continued through late 1996. When it became apparent that the Debtors would be unable, among other things, to reach agreements with the Key Suppliers to resume shipments of critical inventory and equipment or to reach agreement with the Pre-Petition Lenders and the holders of the Notes on the terms of a restructuring of their indebtedness outside of chapter 11, the Debtors concluded that they had no practical alternative other than to seek protection under chapter 11 of the Code.

On January 30, 1997 (the "Petition Date"), each of the Debtors filed a voluntary petition for reorganization under chapter 11 of the Code with the Bankruptcy Court. During the Cases, the Debtors' management has continued to manage the operations and affairs of the Debtors as debtors-in-possession under the jurisdiction of the Bankruptcy Court.

C. The Disclosure Statement; Voting Requirements

[This Disclosure Statement has been approved by the Bankruptcy Court pursuant to an order dated __________, 1998 (the "Disclosure Statement Approval Order") as containing information of a kind and in sufficient detail to enable a hypothetical, reasonable investor typical of the holders of impaired Claims to make an informed judgment with respect to voting to accept or reject the Plan. A copy of the Disclosure Statement Approval Order is attached hereto as Exhibit C.] This Disclosure Statement is being transmitted in connection with the Plan to provide adequate information to enable holders of Claims entitled to vote on the Plan ("Voting Claims") to make an informed judgment with respect to such vote.

APPROVAL BY THE BANKRUPTCY COURT OF THIS DISCLOSURE STATEMENT DOES NOT CONSTITUTE AN ENDORSEMENT OF ANY OF THE REPRESENTATIONS CONTAINED IN THIS DISCLOSURE STATEMENT OR IN THE PLAN, NOR DOES IT CONSTITUTE AN ENDORSEMENT OF THE PLAN ITSELF.

EACH HOLDER OF A VOTING CLAIM SHOULD CAREFULLY REVIEW THE MATERIAL SET FORTH IN THIS DISCLOSURE STATEMENT AND THE EXHIBITS HERETO IN ORDER TO MAKE AN INDEPENDENT DETERMINATION AS TO WHETHER TO VOTE TO ACCEPT OR REJECT THE PLAN. IN ADDITION, ALTHOUGH THE DEBTORS HAVE MADE EVERY EFFORT TO BE ACCURATE HEREIN, EACH HOLDER OF A VOTING CLAIM SHOULD APPROPRIATELY REVIEW THE ENTIRE PLAN AND THE EXHIBITS THERETO BEFORE CASTING A BALLOT.

Accompanying this Disclosure Statement are:

1. A copy of the Plan (attached hereto as Exhibit A);

2. A copy of the Merger Agreement (attached hereto as Exhibit B);

3. A copy of the Disclosure Statement Approval Order (attached hereto as Exhibit C);

4. A copy of the audited consolidated financial statements of Communications as of December 31, 1996 and 1997 and for the years ended December 31, 1995, 1996 and 1997, and the unaudited financial statements of Communications as of June 30, 1998 and for the six-month periods ended June 30, 1997 and 1998 (attached hereto as Exhibit D);

5. A copy of (a) unaudited financial projections relating to the Reorganized Debtors and Arch on a combined basis and (b) unaudited pro forma historical condensed consolidated financial statements of the Reorganized Debtors and Arch on a combined basis (attached hereto as Exhibit E);

6. A ballot for accepting or rejecting the Plan by the holders of Voting Claims (the "Ballot");

7. The notice approved by the Bankruptcy Court which, among other things, states the time fixed by the Bankruptcy Court for:

(a) returning Ballots reflecting acceptances and rejections of the Plan;

(b) the hearing on confirmation of the Plan (the "Confirmation Hearing");

(c) filing objections to confirmation of the Plan; and

(d) the filing of administrative claims by certain parties;

(e) filing claims arising from the rejection of leases and executory contracts; and

(f) filing objections to the Debtors' proposed cure payments in connection with assumed leases and executory contracts;

8. A Preliminary Prospectus included in the Registration Statement filed by Arch with the Securities and Exchange Commission on August 25, 1998, described more fully in Section V.J.3 below, which Preliminary Prospectus is being provided by Arch and is attached hereto as Exhibit F.[3]

Holders of impaired Claims in Classes 4, 5 and 6 are entitled to vote on the Plan. TO BE COUNTED, YOUR VOTE MUST BE RECEIVED ON OR BEFORE 5:00 P.M. (NEW YORK CITY TIME) ON ___________________, 1998 (THE "VOTING DEADLINE"). Signed Ballots should be sent by the Voting Deadline by hand delivery, first class mail postage prepaid or recognized overnight courier to:

Bankruptcy Services, Inc.
70 E. 55th Street, 6th Floor
New York, NY 10022-3222
Attention: Kathy Gerber

Ballots received by facsimile will not be counted.

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[3] Such Preliminary Prospectus will be replaced by the Final Prospectus included in such Registration Statement at the time such Registration Statement becomes effective under the Securities Act of 1933.

D. Sources of Information

The information contained in this Disclosure Statement was derived from (i) the Debtors' and Arch's books and records (such as their general purpose financial statements, books of account and corporate records), (ii) the Debtors' and Arch's public filings and (iii) consultations with the Debtors' and Arch's officers, senior management, key personnel and various of their outside professionals, including accounting and financial advisors.

E. Summary of the Plan

The following Plan summary is qualified in its entirety by reference to the Plan and to the more detailed description of provisions for the Classes created under the Plan set forth in Section V, "Summary of the Plan of Reorganization". This Disclosure Statement contains only a summary of the terms of the Plan. It is the Plan and not the Disclosure Statement that governs the rights and obligations of the parties.

1. General Terms of the Plan of Reorganization and the Business Combination between the Debtors and Arch.

The Plan of Reorganization proposes a merger of the Debtors with a subsidiary of Arch pursuant to the Merger Agreement. On the Effective Date of the Plan, MobileMedia will contribute its assets to Communications and then dissolve, and Communications will merge with and into Merger Subsidiary, a wholly owned subsidiary of Arch, and will continue to operate as a wholly-owned operating subsidiary of Arch. Under the Plan, existing creditors of the Debtors will receive for their claims either (a) cash or (b) equity securities and the right to purchase equity securities of Arch, or will have their claims cured and reinstated pursuant to section 1124 of the Code.

Arch, a Delaware corporation, is a leading provider of wireless messaging services, primarily paging services, and is the second largest paging company in the United States (based on operating earnings before interest, taxes, depreciation and amortization ("EBITDA")). Arch, which had 4.1 million pagers in service at June 30, 1998, operates in 41 states and more than 180 of the 200 largest markets in the United States. Arch offers local, regional and nationwide paging services employing digital networks covering approximately 85% of the United States population. Arch has achieved significant growth in pagers in service and operating cash flow through a combination of internal growth and acquisitions. For the twelve months ended June 30, 1998, Arch's total revenues were $408.2 million, representing a compound growth rate on an annualized basis of 61.7% since January 1, 1995. For the same period, Arch's operating cash flow, or EBITDA, was $136.2 million, representing a compound growth rate on an annualized basis of 78.4% since January 1, 1995.

The Merger Agreement and the Plan together provide for, among other matters:

(i) the payment in full in cash of Allowed Class 4 Claims (Claims under the 1995 Credit Agreement);

(ii) the payment in full in cash of Allowed Class 5 Claims (Claims under the Dial Page Notes);

(iii) the issuance of Arch Common Shares to the holders of Allowed Class 6 Claims (general unsecured Claims, including Subordinated Noteholder Claims), which shares will represent approximately 17.2%-31.3%[4] of the total number of Arch Common Shares (on a Diluted Basis) outstanding immediately following the Merger;

(iv) the distribution by Arch (pursuant to a registration statement filed with the Securities and Exchange Commission on August 25, 1998 (the "Registration Statement")) to holders of Allowed Class 6 Claims of transferable rights (the "Rights") to purchase for cash "Units", which Units are comprised of (a) Arch Common Shares or, under certain circumstances described below, Arch Class B Common Shares (together, "Arch Capital Shares") which will represent approximately 34.3%-52.1%[5] of the total number of Arch Capital Shares (on a Diluted Basis) outstanding immediately following the Merger (the "Rights Offering") and (b) warrants to acquire Arch Common Shares equal to 2.5% of the total number of Arch Capital Shares (on a Fully Diluted Basis) outstanding immediately following the Merger;

(v) the distribution by Arch to four groups of the Debtors' unsecured creditors of warrants to acquire Arch Common Shares in consideration of their several agreements to exercise Rights distributed to them as holders of Allowed Class 6 Claims and to purchase any Units not otherwise purchased through the exercise of Rights, which warrants will represent approximately 2.5% of the total number of Arch Capital Shares (on Fully Diluted Basis) outstanding immediately following the Merger; and

(vi) the satisfaction by Arch of Allowed Priority Claims and Allowed Administrative Claims.

Certain conditions specified in the Plan and the Merger Agreement must be satisfied or waived prior to the Effective Date of the Plan in order for the Merger to be

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[4] Such percentage will be fixed prior to soliciting votes on the Plan based on the pricing mechanism set forth in Schedule II to the Merger Agreement.

[5] Such percentage will be fixed prior to soliciting votes on the Plan based on the pricing mechanism set forth in Schedule II to the Merger Agreement.

consummated and the Plan to become effective. A summary of such conditions is set forth in Section V.C herein, "Conditions to Effectiveness of the Plan" and in Section IV.D herein, "Summary of the Merger Agreement," and reference is made to the terms of the Plan and the Merger Agreement, which are attached hereto as Exhibits A and B, respectively.

As discussed in Sections II.A.8 and IV.F.2, the transfer of the Debtors' FCC licenses and authorizations as contemplated by the Merger will require the approval of the FCC, including pursuant to a doctrine known as Second Thursday. Such approval, if granted, will terminate the pending proceedings regarding the Debtors' qualification to remain an FCC licensee. The Merger and the Debtors' reorganization -- which will include the transfer of various state authorizations -- may also require the approval of state regulatory authorities. FCC approval is also necessary for the change in Arch stock ownership effected by the Plan.

Since the Petition Date, the Debtors have worked to identify and pursue the reorganization strategy that yields the highest and best recovery for the Debtors' creditors. The Debtors and the Committee support the Plan and the proposed Merger as being in the best interests of the Debtors and their estates. The Committee will recommend to its constituency that it vote to accept the Plan.

2. Classification and Treatment of Claims and Interests.

Under the Plan, the Debtors are being treated as one entity for the purpose of claims made against them and distributions made by them under the Plan. The Plan also contemplates the elimination of all intercompany claims between and among the Debtors. As discussed in Section II.B.4.(d), the Debtors filed joint Schedules of Assets, Liabilities and Executory Contracts, and a joint Statement of Financial Affairs. Moreover, under the order entered by the Bankruptcy Court directing certain creditors to file proofs of claim, a claim filed against one Debtor was deemed filed against all of the Debtors.

The Plan provides for separate classes of Claims and Interests (individually, a "Class" and collectively, the "Classes"). The following chart provides a summary of the classification and treatment of the Classes under the Plan. Certain holders of Claims and Interests will be impaired under the Plan, while other holders of Claims will be unimpaired. As discussed in Section IX.C.2., "impairment" is a technical concept under the Code that refers to any change in the contractual or other rights of a creditor or interest holder. Only the holders of Claims and Interests that are impaired under the Plan and are receiving distributions under the Plan are entitled to vote on the Plan.

Summary Chart of Claims and Interests[6]

Class	Description	Estimate of Aggregate Allowed Claim Amount (as of ____, 1998)	Treatment of Allowed Claims
N/A	Administrative Claims		Paid in full in cash
N/A	Priority Tax Claims		Paid in full in cash or over time under 1129(a)(9)(C)
1	Priority Claims		Paid in full in cash
2	Misc. Secured Claims		Unimpaired
3	Customer Refund Claims		Unimpaired
4	Secured Claims under 1995 Credit Agreement		Paid in full in cash
5	Dial Page Notes		Paid in full in cash
6	Non-Priority Unsecured Claims		Arch Stock and Rights (or, if a Class 6 Claim is Allowed after the distribution of Rights, such holder will receive cash in lieu of Rights)
7	Note Litigation Claims		No distribution
8	Common Stock Claims and Interests		No distribution
9	Subsidiary Claims and Interests		No distribution

3. Conditions to Effectiveness of the Plan.

The Bankruptcy Court has scheduled a hearing to consider confirmation of the Plan. The Code imposes a number of voting and other requirements on the confirmation of a plan. These Code requirements are described in Section IX, "Conditions Precedent to Confirmation of the Plan under the Code".

The Plan also provides for other conditions to the occurrence of the Effective Date of the Plan that are set forth in Section V.C, "Conditions to Effectiveness of the Plan". The list that follows is qualified by reference to the Plan and the Merger Agreement and to the more detailed description set forth in Section V.C. The conditions to the Effective Date set forth in the Plan are:

(a) That the Confirmation Order (which order shall be reasonably satisfactory to Arch and, as to the provisions relating to the treatment of Allowed Class 4 Claims, to the Pre-Petition Agent) has been entered by the Bankruptcy Court, has become a Final Order (as defined in section 5.1 of the Merger Agreement), more than ten (10) days have elapsed since the Confirmation Date, no

[6] The estimates set forth in this table are for descriptive purposes only, and do not and shall not constitute an admission as to the Debtors' obligations with respect to any Claim.

stay of the Confirmation Order is in effect and the Confirmation Order has not been reversed, modified or vacated;

(b) That all conditions to the Closing under the Merger Agreement (other than the condition that the Effective Date shall have occurred) have been satisfied or waived by the party entitled thereto; and

(c) That the commitments under the DIP Credit Agreement have terminated, all amounts owing under or in respect of the DIP Credit Agreement have been paid in full in cash and any outstanding letters of credit issued under and in connection with the DIP Credit Agreement or the 1995 Credit Agreement have been terminated or satisfied, or the Debtors have provided cash collateral therefor in accordance with the terms of the DIP Credit Agreement or the 1995 Credit Agreement, as applicable.

The Merger Agreement contains a number of requirements that must be met or waived by the Debtors and/or Arch in order for the Merger to be consummated on the Effective Date. For a description of such requirements, see "Summary of the Merger Agreement" in Section IV.D herein. The conditions to the Effective Date can be waived as described in Article V of the Merger Agreement and in Section V.C below.

4. Securities Being Issued in Connection With the Plan; Post-Merger Capital Structure of Arch.

Under the Plan, Classes 1, 2, 3, 4 and 5 will be paid the Allowed amount of their claims in full in cash or otherwise will not be impaired under the Plan. Classes 7, 8 and 9 will receive no distribution. Securities of Arch are being issued to the holders of Allowed Claims in Class 6 on account of their claims.

On the date that the Bankruptcy Court approves the Disclosure Statement or such date subsequent thereto on which the Securities and Exchange Commission (the "SEC") has declared effective the Registration Statement, Arch will issue the Rights to the holders of Allowed Claims in Class 6. The Rights entitle the holders thereof to purchase for cash (i) an aggregate number of Arch Common Shares equal to 34.3% -52.1%[7] of the anticipated outstanding Arch Capital Shares on the date the "Buyer Market Price" is determined in accordance with Schedule II to the Merger Agreement (computed on a Diluted Basis and after giving effect to the Plan as if the Effective Date had occurred on such date and assuming 21,067,110 Arch Common Shares are issued and outstanding immediately prior thereto) and (ii) warrants to purchase in the aggregate, an aggregate number of Arch Common Shares equal to 2.5% of the anticipated issued and outstanding Arch Capital Shares on the Effective Date (the "Arch Warrants"). The subscription

[7] Such percentage will be fixed prior to soliciting votes on the Plan based on the pricing mechanism set forth in Schedule II to the Merger Agreement.

price of the Rights (the "Rights Exercise Price") will be based on the market price of Arch Common Shares as determined during a twenty-day period immediately prior to September 22, 1998.[8] If fewer than all of the holders of Allowed Class 6 Claims exercise the Rights, certain Standby Investors (as defined below) have committed to purchase the common stock and warrants not otherwise purchased in connection with the Rights.

In addition, on the Effective Date, Arch will issue Arch Common Shares to the holders of Allowed Claims in Class 6 that will represent 17.2% to 31.3%[9] of the issued and outstanding Arch Capital Shares, on the date the "Buyer Market Price" is determined in accordance with Schedule II to the Merger Agreement, computed on a Diluted Basis and after giving effect to the Plan as if the Effective Date had occurred on such date and assuming 21,067,110 Arch Common Shares are issued and outstanding immediately prior thereto. The issuance of these shares is subject to adjustment as described in Section V.B.4.

The Plan will effectuate the cancellation of virtually all of the pre-petition indebtedness of the Debtors. The holders of Allowed Claims in Class 6 will be receiving equity interests (and the right to purchase equity interests) in a company that, after giving effect to the Merger on a pro forma basis, would have long-term debt, total assets and stockholders' equity of $1.3 billion, $1.8 billion and $322.3 million, respectively, at June 30, 1998.

II. DESCRIPTION OF THE DEBTORS

A. Background Information Regarding the Debtors

The following information provides a brief summary of the business of the Debtors.[10] Attached hereto as Exhibit D are the 1996 and 1997 audited consolidated financial

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[8] The Rights Exercise Price will be set based on the pricing mechanism set forth in Schedule II to the Merger Agreement (the "Pricing Mechanism"). The Pricing Mechanism provides for the closing trading price of the Arch Common Shares to be monitored for the 20 trading days immediately prior to September 22, 1998. The closing price of the Arch Common Shares for eight of such days will be selected at random, the two highest and lowest prices shall be discarded, and the prices for the remaining four days will be averaged (the "Pricing Mechanism Price"). The Rights Exercise Price will be set at 80% of the Pricing Mechanism Price, provided that in no event, will the Rights Exercise Price be less than $5.00 or more than $8.50. As described in Section V.J.3 below, there can be no assurance that the Rights Exercise Price will be below the market price of the Arch Common Shares at any time during the Rights Offering.

[9] Such percentage will be fixed prior to soliciting votes on the Plan based on the pricing mechanism set forth in Schedule II to the Merger Agreement.

[10] Because MobileMedia was unable to comply with certain accounting requirements and,
(continued...)

statements of Communications, which provide certain historical financial information regarding the Debtors. In addition, since the Petition Date, the Debtors have filed Monthly Operating Reports with the Office of the United States Trustee for the District of Delaware (the "Operating Reports"), and have filed a copy of each Operating Report with the SEC as an exhibit to a Current Report on Form 8-K. Financial statements included in the Debtors' periodic reports for all periods since February 1997 were not been prepared in accordance with generally accepted accounting principles ("GAAP") due to the Debtors' inability at the time of such filings to determine the amount of an impairment loss related to long-lived assets pursuant to Financial Accounting Standard No. 121, are unaudited and have been revised periodically based on subsequent determinations of changes in facts and circumstances impacting previously filed unaudited financial statements. The audited financial statements of Communications attached hereto as Exhibit D reflect adjustments from the unaudited statements, including, but not limited to, an impairment adjustment of $792.5 million recorded as of December 31, 1996.

1. Overview of the Debtors' History and Operations.

(a) *The MTI Acquisition*. The Debtors' business originally derives from the paging business formed by MetroMedia Telecommunications, Inc. through numerous acquisitions in the 1980's. In 1987, SBC Communications, Inc. ("SBC"), formerly Southwestern Bell Corporation, acquired MetroMedia Telecommunications, Inc. ("MTI") and continued to operate the paging business under the "MetroMedia" name.

On December 30, 1992, Local Area Telecommunications, Inc. ("Locate") entered into a stock purchase agreement (the "MTI Purchase Agreement") to acquire the stock of MTI from SBC for $308 million, subject to certain adjustments (the "MTI Acquisition"). MobileMedia and the predecessor of Communications (the "Predecessor") were formed by Locate in September 1993 to effect the MTI Acquisition. Locate's rights under the MTI Purchase Agreement were contributed to MobileMedia in exchange for which MobileMedia issued 4,375,000 shares of Class B Common Stock to Locate, and MobileMedia's rights under the MTI Purchase Agreement were contributed to the Predecessor.

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[10] (...continued)
therefore, to issue audited financial statements in compliance with generally accepted accounting principles, it was unable to file its Report on Form 10-K for the year ending December 31, 1996 or its Report on Form 10-Q for the fiscal quarter ending March 31, 1997. Accordingly, MobileMedia was unable to comply with the continued listing requirements of the NASDAQ National Market ("NASDAQ") and, on June 3, 1997, MobileMedia voluntarily delisted its Class A Common Stock from the NASDAQ. Since the filing of the September 1996 Form 10-Q, MobileMedia has not filed any periodic reports under the Securities and Exchange Act of 1934, as amended, other than Current Reports on Form 8-K. The 1996 and 1997 audited consolidated financial statements of Communications attached hereto as Exhibit D were not completed until August 20, 1998.

In order to provide a portion of the financing for the MTI Acquisition, Locate and MobileMedia entered into a stock purchase agreement with Hellman & Friedman Capital Partners II, L.P. and certain other investors (collectively, the "H&F Investors"), dated as of October 11, 1993, as amended (the "H&F Purchase Agreement"). Pursuant to the H&F Purchase Agreement and concurrently with the consummation of the MTI Acquisition, MobileMedia sold to the H&F Investors for $150 million (i) 14,999,995 shares of Class A Common Stock of MobileMedia and (ii) warrants to purchase 456,283 shares of Class A Common Stock of MobileMedia at $.001 per share (the "H&F Investment"). The proceeds of the H&F Investment were contributed by MobileMedia to the Predecessor, and the Predecessor used such proceeds, the net proceeds from the issuance of $210,000,000 aggregate principal amount at maturity of 10½% Senior Subordinated Deferred Coupon Notes due December 1, 2003 (the "10½% Notes") and initial borrowings under a bank credit facility to pay the purchase price and transaction fees and expenses incurred in connection with the MTI Acquisition. Concurrently, the Predecessor merged with and into MTI, with the result that MTI became a wholly owned subsidiary of MobileMedia, and MTI was renamed "MobileMedia Communications, Inc." As a result of the MTI Acquisition, Communications had approximately 1.2 million units in service as of December 31, 1993.

(b) *The Dial Page Acquisition.* On August 31, 1995, Communications purchased the paging and wireless messaging business of Dial Page, Inc. (the "Dial Page Acquisition"). The purchase price of the Dial Page Acquisition was largely financed through an initial public offering of 8,800,000 shares of MobileMedia Class A Common Stock which, at a price to the public of $18.50 per share, generated net proceeds of approximately $151.9 million, which proceeds were contributed to Communications. The total purchase price of the Dial Page Acquisition was $187.4 million, which included the assumption of $85 million outstanding principal amount of the Dial Page 12¼% Senior Notes due 2000 (the "Dial Page Notes"). Concurrently with the transaction, Communications repurchased all but approximately $1.6 million of the Dial Page Notes. The Dial Page Acquisition added approximately 0.4 million units in service in the southeastern United States to Communications' subscriber base.

(c) *The MobileComm Acquisition.* On January 4, 1996, Communications purchased MCCA (the "MobileComm Acquisition"), the paging and wireless messaging unit of BellSouth Corporation ("BellSouth"), and an associated nationwide two-way narrowband 50/12.5 kHz PCS license. The purchase price for the MobileComm Acquisition was $928.7 million. The purchase price of the MobileComm Acquisition was financed by (i) MobileMedia's public offering of 15,525,000 shares of Class A Common Stock which, at a price to the public of $23.75 per share, generated net proceeds of approximately $354.9 million, of which $340 million was contributed by MobileMedia to Communications, (ii) a concurrent public offering by Communications of $250 million aggregate principal amount at maturity of 9⅜% Notes and (iii) loan facilities aggregating $750 million, consisting of a $550 million secured term loan facility and a $200 million secured revolving loan facility (the "1995 Credit Facility"), evidenced by the 1995 Credit Agreement. $500 million of the secured term loan facility was used as consideration for the MobileComm Acquisition. $50 million of the 1995 Credit Facility was used to repay Communications' former credit facility. The MobileComm Acquisition added approximately 1.7 million units in service to the Debtors' subscriber base.

(d) *Post-Acquisition Operations.* Since consummating the Dial Page Acquisition and the MobileComm Acquisition, the Debtors have experienced difficulties integrating the acquired businesses and have experienced serious financial difficulties. During 1996, the financial results of the Debtors were negatively impacted by the continuing costs and increased subscriber "churn" associated with the attempt to integrate the business operations of MobileComm and Dial Page with the preexisting business of the Debtors.[11]

Since the Petition Date, the Debtors have been engaged in restructuring their operations with the objective of improving performance, principally in the areas of order entry, billing and collections, inventory controls, management information systems conversion and customer service. The Debtors also have undertaken cost reduction analyses and have taken actions that have the objective of reducing telecommunications, subcontracting and lease expenses, among others. In addition, the Debtors have sought to refocus their marketing and sales efforts in an attempt to achieve unit additions consistent with positive cash flow, and are continuing to change their management structure with the objective of establishing profit and loss accountability in each market.

(e) *The Locate Entities.* As noted above, the Locate Entities are five subsidiaries of MobileMedia that ceased doing business in 1996 but that did not file bankruptcy petitions with the Debtors. The Locate Entities formerly operated as a competitive access provider, providing (i) local digital microwave distribution services and facilities to large corporations and to interexchange and other common carriers, and (ii) local, long distance and international switched services. The assets of the Locate Entities were sold in a series of transactions, culminating in a sale to WinStar Communications, Inc. ("WinStar") in October 1996 of substantially all the remaining assets of the Locate Entities in exchange for notes payable by WinStar in the principal amount of $17.5 million (the "WinStar Notes"). On April 7, 1997, WinStar paid the amounts owing on the WinStar Notes, except for certain amounts withheld to cover liabilities for New York City commercial rent taxes, New York State bulk sales taxes and certain property taxes.

MobileMedia believes that the liabilities of the Locate Entities exceed their assets. Since the Petition Date, MobileMedia has been working with officers of the Locate Entities (including Joseph A. Bondi, also a MobileMedia officer) to quantify potential liabilities against the Locate Entities. In particular, the Locate Entities are working with their financial advisors to assess and establish an appropriate reserve for outstanding and potential tax liabilities. In addition

[11] "Churn", typically measured on a monthly basis, is the percentage loss of a paging company's subscriber base. Because of the various expenses associated with churn, and because of the fact that it may be indicative of operational problems, it is highly desirable for a paging company to maintain a low churn rate.

to existing and potential tax claims, the Locate Entities are aware of the following creditors of the Locate Entities and their claimed amounts: (i) Hellman & Friedman Capital Partners II, L.P. ("Hellman & Friedman"), a significant shareholder of MobileMedia, for the principal amount of $7.3 million, plus $2.69 million of interest from February, 1995 through December 31, 1997, based on certain promissory notes executed by one of the Locate Entities in 1995; (ii) certain trusts of which G. Jeffrey Mennen is a trustee (collectively, "Mennen"), for the aggregate principal amount of $10 million, together with an unspecified amount of interest thereon (currently estimated to be approximately $3 million), based on promissory notes executed by one of the Locate Entities in 1994 (collectively, "Mennen Claims"); (iii) R. Craig Roos, a former officer of the Locate Entities, for approximately $2.6 million, based on severance and related claims under an employment agreement; and (iv) Kenneth Curtin, a former officer of the Locate Entities, for approximately $1 million based on severance and related claims under an employment agreement. Hellman & Friedman asserts that its claims are senior to the Mennen Claims by virtue of a subordination agreement among Hellman & Friedman, Mennen and Locate. In addition, MobileMedia has a claim for reimbursement against the Locate Entities in an amount yet to be determined.

To date, the Locate Entities have paid approximately $1.1 million to various taxing authorities and have made two interim distributions to their creditors (other than MobileMedia) in the aggregate amount of $718,479, as follows: Jerry McAndrews (no longer a creditor of the Locate Entities) -- $25,000; John Davenport (who is believed no longer to be a creditor of the Locate Entities) -- $2,216; Kenneth Curtin -- $191,263; R. Craig Roos -- $200,000; Mennen -- $150,000; and Hellman & Friedman -- $150,000. Such payments and interim distributions will reduce amounts ultimately to be distributed to such creditors. Substantially all of such interim distributions were made without prejudice to any rights of the Locate Entities. The Locate Entities expressly reserved their rights to dispute such claims of creditors, and substantially all of the interim distributions to creditors were made expressly subject to recovery if such claims are not ultimately established.

In addition to the claims described above, one of the Locate Entities is a named defendant in a lawsuit currently pending in New York Supreme Court relating to claims by two individuals seeking damages of $65 million for defamation and intentional infliction of emotional distress in connection with alleged false and defamatory statements transmitted over an electronic paging network. The Locate Entities believe that the plaintiffs' allegations are without merit and are vigorously defending the action.

It is currently anticipated that the Locate Entities will be liquidated pursuant to a chapter 11 filing in order to effect a consensual allocation and distribution of assets to their creditors. Kensington & Ressler L.L.C. has been retained as outside counsel to assist management of the Locate Entities in resolving with their creditors all issues relating to the validity, extent and priority of their claims. Other than the known creditors named above, MobileMedia is not aware of any claims against the assets of the Locate Entities by any creditors of the Debtors. It is anticipated that the liquidation of the Locate Entities will be completed prior to the Effective Date of the Plan.

2. Networks and Licenses.

(a) *General.* The Debtors operate local, regional and national paging networks. The Debtors' networks enable customers to receive pages over a broad geographical area. The extensive coverage provided by this network infrastructure provides the Debtors with an advantage over certain competitors whose networks lack comparable coverage in securing accounts with large corporate clients and retail chains, who frequently demand national network coverage from their paging service provider.

Although the Debtors' networks provide local, regional and national coverage, the Debtors' networks operate over numerous frequencies and are subject to some capacity constraints in certain geographic markets. The use of multiple frequencies adds complexity to inventory management, customer service and order fulfillment processes. Certain of the Debtors' networks utilize older technologies and are comparatively costlier to operate. Although the capacity of the Debtors' network infrastructure varies significantly market-by-market, customer usage of the Debtors' systems is close to capacity in several markets, thus limiting future growth in such markets in the absence of additional capital investment.

The Debtors are seeking to improve overall network efficiency through the deployment of new paging terminals, the consolidation of subscribers on fewer, higher capacity networks and increasing the transmission speed (baud rate) of certain of their existing networks. The Debtors believe their investments in their network infrastructure will facilitate and improve the delivery of high quality paging services while at the same time reducing associated costs of such services.

(b) *Nationwide wireless networks.* The Debtors operate two nationwide 900 MHz networks. As part of the MobileComm Acquisition, the Debtors acquired MCCA's fully operational nationwide wireless network (the "8875 Network"), which was upgraded in 1996 to incorporate high-speed FLEX™ technology developed by Motorola. In addition, in 1996, the Debtors completed the construction of a second nationwide network that uses FLEX™ technology (the "5375 Network"). The use of FLEX™ technology significantly increases transmission capacity and represents a marked improvement over other systems that use older paging protocols.

(c) *Nationwide two-way narrowband PCS networks.* Narrowband PCS networks enable paging companies to offer two-way paging services and to make more efficient use of radio spectrum than do non-PCS networks. The Debtors purchased five regional licenses through the FCC's 1994 auction of narrowband PCS licenses, providing the equivalent of a nationwide 50 kHz outbound/12.5 kHz inbound PCS system. In addition, as part of the

MobileComm Acquisition, the Debtors acquired a second two-way narrowband PCS license for a nationwide 50 kHz outbound/12.5 kHz inbound system.

In order to retain their narrowband PCS licenses, the Debtors must comply with certain minimum build-out requirements. With respect to each of the regional PCS licenses purchased at the FCC's 1994 auction, the Debtors are required to build out the related PCS system to cover 150,000 sq. km. or 37.5% of each of the five regional populations by April 27, 2000 and 300,000 sq. km. or 75% of each of the five regional populations by April 27, 2005. With respect to the nationwide PCS license acquired as part of the MobileComm Acquisition, the Debtors are required to build out the related PCS system to cover 750,000 sq. km. or 37.5% of the U.S. population by September 29, 1999 and 1,500,000 sq. km. or 75% of the U.S. population by September 29, 2004. In each instance, the population percentage will be determined by reference to population figures at the time of the applicable deadline. The Debtors estimate that the costs of these minimum build-outs (which would not be sufficient for the Debtors to provide significant narrowband PCS applications) could be as much as approximately $9 million. The Debtors have concluded that, given the expected high demand for nationwide alphanumeric services, the potential demand for guaranteed receipt services and the Debtors' high fixed costs for maintaining and building out their existing networks, the most economical means for satisfying projected demand is for the Debtors to construct a fully operational narrowband PCS network with ReFLEX 25™ capability. The Debtors estimate that they will be able to complete the construction economically relative to other methods of network construction using their existing nationwide network infrastructure and supplementing it with additional transmitters and with receivers. On May 12, 1998, the Bankruptcy Court authorized the Debtors to expend up to $16 million during 1998 in connection with the buildout of the network necessary to support narrowband PCS services.

3. Paging and Messaging Services and Products.

(a) *Paging and Messaging Services.* The Debtors currently offer a variety of paging and messaging services. To send a page to a subscriber of the Debtors, a party must initiate contact with a paging terminal. This is typically accomplished, depending on the type of paging service, by use of a touch-tone telephone, with the assistance of an operator employed by or working on behalf of the Debtors or through software loaded onto the sender's personal computer, an input device or the Internet. The paging terminal then sends an encoded message to the Debtors' transmitter network, which broadcasts the call to its geographic service area. This broadcast signal is received by the subscriber's pager, which decodes the information, alerts the subscriber and displays the message received. The main paging services offered by the Debtors are:

• *Numeric (Digital Display) Paging Service*. Numeric paging service permits a caller, using a touch-tone telephone, to transmit to a subscriber a numeric message consisting of a telephone number, an account number or coded information. Numeric pagers have memory capability to store several such numeric messages which can be recalled by a subscriber when desired. As of June 30, 1998, the Debtors had approximately 2.6 million numeric units in service.

• *Alphanumeric Paging Service*. Alphanumeric paging service allows subscribers to receive and store messages consisting of both letters and numbers. Alphanumeric pagers have sufficient memory to store numerous messages. This service has the capability to tie into computer-based networks to provide advanced messaging services. Callers may send messages either by using an operator dispatch center, a personal computer equipped with a modem and MessageSoft software or a portable alphanumeric input device, such as the AlphaMate™ manufactured by Motorola. Internet and WorldWide Web access is also possible for many alphanumeric paging customers. As of June 30, 1998, the Debtors had approximately .6 million alphanumeric units in service.

• *Other Services*. In addition to local, regional and nationwide paging service -- both numeric and alphanumeric -- the Debtors offer a variety of enhanced services such as voice mail and voice mail notification, e-mail notification and news, sports reports and stock quotes.

(b) *Products and Services*. Subscribers for paging services enter into a service contract with the Debtors that provides for either the purchase or lease of pagers and the payment of air time and other charges. The Debtors also sell their services in bulk quantities to resellers, who subsequently sell the Debtors' services to end-users. Resellers are responsible for sales, billing, collection and equipment maintenance costs. As of June 30, 1998, approximately 50% of units in service were purchased either by subscribers or by resellers, and approximately 50% were owned by the Debtors and leased to subscribers. Customer-owned and -maintained pagers and those owned by resellers do not require capital investment by the Debtors, unlike Debtor-owned pagers leased to subscribers.

The Debtors sell other products and services, including pagers and accessories and pager replacement and maintenance contracts.

4. Sales and Marketing.

(a) *General*. The Debtors' sales and marketing efforts are directed toward adding additional units with existing subscribers and identifying new potential subscribers.

Subscribers to the Debtors' paging and wireless communications services generally have been individuals and organizations whose employees are highly mobile or whose business involves multiple work locations and who are required to remain in contact at all times. Traditional subscribers include medical personnel, sales and service organizations, specialty trade organizations, manufacturing organizations and governmental agencies. However, paging services are increasingly appealing to mass market consumers for private, non-business uses such as communicating with family and friends.

(b) *Sales Channels*. The Debtors market their paging services through three primary sales channels: direct, reseller and retail.

- *Direct*. In the direct channel, the Debtors lease or sell pagers directly to their customers and bill and service such customers. The Debtors' direct customers range from individuals and small- and medium-sized businesses to Fortune 500 accounts and government agencies. Business and government accounts typically exhibit lower churn rates than consumer accounts. The direct channel will continue to have the highest priority among the Debtors' marketing and sales efforts, given its critical contribution to recurring revenue and projected growth. The Debtors are engaging in efforts to improve sales productivity and strengthen their direct channel sales force, which suffered from high turnover and open positions during much of 1997. In addition, the Debtors commenced implementing consumer direct marketing techniques in 1998. As of June 30, 1998, the direct channel accounted for approximately 79% of recurring revenue.

- *Reseller*. In the reseller channel, the Debtors sell access to their transmission networks in bulk to a third party, who then resells such services to the end users (usually consumers or small businesses). The Debtors offer paging services to resellers at bulk discounted rates. The third party reseller provides customer service, is responsible for pager maintenance and repair costs, invoices the end user and retains the credit risk of the end user, although the Debtors retain the credit risk of the reseller. Because resellers are responsible for customer equipment, the capital costs that would otherwise be borne by the Debtors are reduced.

  The Debtors' resellers generally are not exclusive distributors of the Debtors' services and often resell paging services of more than one provider. Competition among service providers to attract and maintain reseller distribution is based primarily upon price, including the sale of pagers to resellers at discounted rates. Going forward, the Debtors intend to be an active participant in the reseller channel, but to concentrate on accounts that are profitable and where longer term partnerships can be established with selected resellers. As of June 30, 1998, the reseller channel accounted for approximately 11% of recurring revenue.

- *Retail.* In the retail channel, the Debtors sell pagers to retailers and, after the consumer purchases the pager from the retailer, the consumer contacts the Debtors to activate service. The retail channel is targeted at the consumer market and consists primarily of national retail chains. Consumers served by the retail channel typically purchase (as opposed to lease) paging units, reducing the Debtors' capital investment requirements in pagers. Subscribers obtained through retailers are billed and serviced directly by the Debtors. Retail distribution permits the Debtors to penetrate the consumer market by supplementing direct sales efforts. As of June 30, 1998, the retail channel accounted for approximately 10.5% of recurring revenue.

5. <u>Suppliers and Equipment Vendors</u>.

The Debtors do not manufacture any of the pagers or related transmitting and paging terminal equipment used in their paging operations. The Debtors currently purchase pagers from a limited number of suppliers and in turn sell or lease the pagers to their subscribers. Motorola is the primary supplier of pagers to the Debtors. Glenayre is the Debtors' primary supplier of paging terminals, paging transmitters and voice mail system equipment. On February 6, 1997, the Debtors obtained Bankruptcy Court approval to pay the pre-petition outstanding accounts payable owing to their Key Suppliers, in exchange for which each of Motorola, NEC, Panasonic and Glenayre entered into post-petition supply agreements with the Debtors.

6. <u>Assets of the Debtors</u>.

In addition to their FCC licenses and network infrastructure (which includes radio transmission and satellite uplink equipment), the Debtors have the following categories of assets:

(a) pagers (including both pagers held as fixed assets for lease and pager inventory for sale), pager parts and accessories;

(b) their subscriber base and related accounts receivable;

(c) intellectual property;

(d) owned real estate and improvements;

(e) certain leased assets;

(f) computer and telephone systems and equipment;

(g) furniture, fixtures and equipment;

(h) the ownership of one-third of the equity of Abacus Communications Partners, L.P.;

(i) goodwill and other intangibles; and

(j) cash and cash equivalents.

7. Material Litigation and Claims against the Debtors.

(a) *Pending FCC Action*. In press releases issued on September 27 and October 21, 1996, the Debtors disclosed that misrepresentations had been made to the FCC and that other violations had occurred during the licensing process for as many as 400 to 500 authorizations, or approximately 6% to 7%, of their approximately 8,000 local transmission one-way paging stations. The Debtors caused an investigation to be conducted by their outside counsel, and a comprehensive report regarding these matters was provided to the FCC on October 15, 1996. In cooperation with the FCC, outside counsel's investigation was expanded to examine all of the Debtors' nationwide paging licenses, and the results of that investigation were submitted to the FCC on November 8, 1996. Since November 8, 1996, the Debtors have continued to provide additional information to the FCC.

On January 13, 1997, the FCC issued a Public Notice relating to the status of certain FCC authorizations held by the Debtors. In the Public Notice, the FCC announced that it had (i) automatically terminated approximately 185 authorizations for paging facilities that were not constructed by the expiration date of their construction permits and remained unconstructed, (ii) dismissed approximately 93 applications for fill-in sites around existing paging stations (which had been filed under the "40-mile rule") as defective because they were predicated upon unconstructed facilities and (iii) automatically terminated approximately 99 other authorizations for paging facilities that were constructed after the expiration date of their construction permits. With respect to the constructed stations, the Public Notice permitted the Debtors to continue to operate those stations on an interim basis until further action by the FCC.

On April 8, 1997, the FCC issued an Order commencing an administrative hearing to inquire into the qualification of the Debtors to remain an FCC licensee. The Order directed an administrative law judge ("ALJ") to take evidence and develop a full factual record on issues concerning the Debtors' filing of false forms and applications in connection with their applications for paging licenses. While the Order initiated a fact-finding and evaluative hearing process to gather information with which to make a decision, the FCC directed the ALJ to make a recommended decision only as to factual matters. Decisions as to the conclusions of law, the disposition of the case and any appropriate sanctions were reserved to the FCC. During the proceeding, the Debtors would continue to operate in the ordinary course and provide uninterrupted service to customers.

On April 23, 1997, the Debtors filed a motion with the ALJ seeking a stay of the hearing proceedings instituted by the April 8 Order. The Debtors sought the stay on the ground that, absent a stay, the uncertainty created by the hearing process would likely inflict material irreparable damage on the Debtors' business. In the motion, the Debtors also sought confirmation that the Debtors' operations could be preserved through an assignment or transfer of control of the Debtors' Licenses consistent with an FCC doctrine known as Second Thursday.[12] On May 5, 1997, the ALJ denied the Debtors' motion for a stay.

On June 6, 1997, as a result the Debtors' request for FCC review of the ALJ's order, the FCC issued a ten-month stay of the hearing. The ten-month stay is intended to provide the Debtors with an opportunity to comply with the FCC's Second Thursday doctrine. The Second Thursday doctrine balances the FCC's interests with the Code's policies of preserving value for creditors by permitting a company to transfer its licenses as long as the individuals charged with misconduct (i) would have no part in the proposed operations and (ii) would receive either no benefit from the transfer or only a minor benefit that would be outweighed by equitable considerations in favor of innocent creditors. The Debtors believe they will satisfy the requirements of Second Thursday pursuant to the proposed Plan. FCC approval of the transfer of the Debtors' licenses pursuant to the Plan is a condition to effectiveness of the Plan. Such approval, if granted, will terminate the pending proceedings into the Debtors' qualification to remain an FCC licensee. On March 27, 1998, the Debtors filed a request with the FCC to extend the ten-month stay for an additional six months, in order to provide the Debtors with sufficient time to complete their reorganization process and to continue discussions among the various partes in interest. This extension request was granted by the FCC on June 4, 1998.

(b) *Securities Class Actions*. Prior to the Petition Date, five actions allegedly arising under the federal securities laws were filed against MobileMedia and certain of its officers, directors and underwriters in the United States District Court for the District of New Jersey. These actions were subsequently consolidated as In re MobileMedia Securities Litigation, No. 96-5723 (AJL) (the "New Jersey Actions"). A consolidated amended complaint (the "Complaint") was filed on November 21, 1997. The Complaint does not name MobileMedia as a defendant, but alleges that (i) certain former officers of MobileMedia deceived the investing public in violation of section 10(b) of the Securities Exchange Act of 1934 (the "Exchange Act") and Rule 10b-5 promulgated thereunder and section 20(b) of the Exchange Act by making false statements or omissions in press releases and public filings between June 29, 1995 and September 27, 1996 (the "Class Period"), and (ii) certain officers, directors and underwriters of MobileMedia violated sections 11, 12(a)(2) and 15 of the Securities Act of 1933 (the "Securities Act") by failing to disclose information in offering documents filed with the Securities and Exchange Commission (the "SEC") on or around November 7, 1995 in connection with the secondary offering of MobileMedia common stock and 9⅜% Notes.

[12] This policy derives from the FCC's decision in In re Second Thursday Corp., 22 F.C.C.2d 515 (1970), reconsideration granted in part, 25 F.C.C.2d 112 (1970).

The plaintiffs in the New Jersey Actions allege that, as a result of alleged misrepresentations, purchasers of MobileMedia common stock and 9⅜% Notes suffered hundreds of millions of dollars in damages as the truth concerning, among other things, the severe problems with MobileMedia's growth strategy and its submission of false license applications to the FCC began to emerge and the price of MobileMedia securities dropped.

In June 1997, the Debtors initiated an Adversary Proceeding in the Bankruptcy Court to stay the prosecution of the New Jersey Actions. The basis of the Debtors' motion for a stay was, inter alia, that the continued prosecution of the New Jersey Actions would interfere with the Debtors' efforts to reorganize and would deplete the assets of the estate.

Pursuant to a Stipulation entered into among the Debtors and the plaintiffs in the New Jersey Actions and "So Ordered" by the Bankruptcy Court on October 31, 1997, the plaintiffs in the New Jersey Actions may conduct only limited discovery in connection with the New Jersey Actions and may not file any pleadings, except responses to motions to dismiss, until the earlier of September 30, 1998 and the Effective Date of the Plan. Subsequent to the expiry of this stay, the New Jersey Actions will be allowed to proceed against the named defendants.

In addition to the New Jersey Actions, two lawsuits were filed in September 1997 in the United States District Court for the Northern District of California and the Superior Court of California naming as defendants certain former officers and certain present and former directors of MobileMedia, certain investment entities and Ernst & Young LLP. None of the Debtors is named as a defendant in these two actions. The actions are styled Allen T. Gilliland Trust v. Hellman & Friedman Capital Partners II, L.P., Civil Action No. 97-3543 (N.D. Cal. 1997), and Allen T. Gilliland Trust v. Hellman & Friedman MobileMedia Partners, L.L.C., Case No. 989891 (Cal. Super. Ct. 1997) (together, the "California Actions" and, together with the New Jersey Actions, the "Securities Actions"). The plaintiffs in the California Actions are or were shareholders of MobileMedia who purchased stock during 1995 and 1996 and allege that MobileMedia, through the actions of the named defendants, violated federal securities laws, various provisions of the California Corporations Code and California state law in connection with the sale of MobileMedia's securities and in various public filings.

On November 4, 1997, the Debtors commenced an adversary proceeding in the Bankruptcy Court seeking to stay the prosecution of the California Actions against the named defendants. At a hearing held on December 10, 1997, the Bankruptcy Court enjoined the plaintiffs in the California Actions until May 31, 1998 from prosecuting the California Actions, except that the Bankruptcy Court permitted the plaintiffs in the California Actions to prosecute and respond to certain legal motions and to request documents of defendants and non-parties who do not currently serve on the Board of MobileMedia.

On May 15, 1998, the Debtors filed a motion with the Bankruptcy Court seeking an extension of the stay in connection with the California Actions. Subsequent to negotiations with the plaintiffs in the California Actions, the Debtors submitted an agreed form of order that bars certain types of discovery until September 15, 1998. This order was entered by the Bankruptcy Court on May 29, 1998. Subsequent to the expiry of this stay, the California Actions will be allowed to proceed against the named defendants.

Neither the New Jersey Actions nor the California Actions name any of the Debtors as a defendant. However, proofs of claim have been filed against the Debtors by the plaintiffs in the New Jersey Actions, and both the New Jersey Actions and the California Actions may give rise to claims against the Debtors' Directors, Officers and Corporate Liability Insurance Policy. As to the Debtors, however, these Claims (and related claims for indemnification) are classified in Classes 7 and 8, and will receive no distributions under the Plan.

(c) *Bankruptcy Claims.* Since the June 16, 1997 bar date established by the Bankruptcy Court for filing proofs of claim in the Cases, the Debtors have been actively involved in resolving the claims filed against their estates. As of July 31, 1998, more than 2,400 proofs of claim had been filed in the Cases. Approximately 1,260 of these claims, filed in an aggregate amount of approximately $91.4 million, have already been resolved by order of the Bankruptcy Court at an aggregate allowed amount of approximately $3.65 million. As of July 31, 1998, the Debtors had also analyzed and resolved an additional 855 proofs of claim, representing an aggregate allowed amount of $5.3 million. Excluding claims filed by or on behalf of the Pre-Petition Lenders, the holders of the Notes and taxing authorities, there are fewer than 40 unresolved filed claims over $100,000, which claims have an aggregate filed value of less than $30 million. The Debtors have already filed objections with the Bankruptcy Court to certain of these claims and are currently in the process of reconciling and resolving those remaining. The Debtors believe that, once resolved, the aggregate allowed amount of these remaining claims will be substantially less than $30 million.

The Debtors also are in the process of reconciling and resolving the tax claims filed against their estates. These tax claims were filed in an aggregate amount of approximately $30 million. The Debtors anticipate that these claims will be allowed in an amount substantially less than the filed amount.

8. Regulatory Matters.

(a) *FCC Regulation.* The paging licenses granted to the Debtors by the FCC are for varying terms of up to 10 years, at the end of which renewal applications must be approved by the FCC. In the past, paging license renewal applications generally have been granted by the FCC upon a showing of compliance with FCC regulations and of adequate service to the public. It is possible that there may be competition for radio spectrum associated with licenses as they expire, thereby increasing the chances of third party interventions in the renewal proceedings. Other than those still pending, the FCC has thus far granted each license renewal that the Debtors have filed. Almost all of the Debtors' FCC paging, business, earth station and air-to-ground licenses will expire in 1998 and 1999. The Debtors' nationwide PCS license will expire in September 2004 and their regional narrowband PCS licenses will expire in April 2005.

In addition, the Debtors' narrowband PCS licenses require that the Debtors construct base stations meeting certain population coverage requirements within five and ten years of the initial license grants, respectively. As discussed in Section II.A.2.(c), the Debtors intend to build out their narrowband PCS license infrastructure to meet these requirements.

The Communications Act of 1934, as amended, (the "Communications Act"), requires radio licensees such as the Debtors to obtain prior approval from the FCC for the assignment or transfer of control of any construction permit or station license or authorization or any rights thereunder. This statutory requirement attaches to acquisitions of other paging companies (or other radio licensees) by the Debtors and transfers by the Debtors of a controlling interest in any of their licenses, construction permits or any rights thereunder. In addition, prior FCC approval would be required in connection with any transfer of control of the Debtors or, in certain circumstances, the acquisition of fifty percent (50%) or more of the equity of the Debtors by a single entity or two or more entities under common control, or the transfer of de facto control of the Debtors. On February 13, 1997, in connection with the filing of the Cases, the Debtors sought a grant of permission from the FCC to execute an involuntary, pro forma assignment of their licenses to the Debtors as debtors-in-possession. On March 3, 1997, the FCC granted such permission with respect to the Debtors' earth stations, on April 3, 1997, the FCC granted such permission for the assignment of the Debtors' microwave licenses and on May 26, 1998 and July 17, 1998, the FCC granted such permission with respect to the Debtors' paging, air-to-ground and narrowband PCS licenses. In addition, as noted above, FCC approval of the transfer of the Debtors' licenses pursuant to the Plan and the Merger Agreement is a condition to effectiveness of the Plan and the Merger Agreement.

In a rulemaking proceeding pertaining to interconnection between local exchange carriers ("LECs") and commercial mobile radio service ("CMRS") providers such as the Debtors, the FCC has concluded that LECs are required to compensate CMRS providers for the reasonable costs incurred by such providers in terminating traffic that originates at LEC facilities, and vice versa. Consistent with this ruling mandating compensation for carriers terminating LEC-originated traffic, the FCC has determined that LECs may not charge a CMRS provider or other carrier for terminating LEC-originated traffic or for dedicated facilities used to deliver LEC-originated traffic to one-way paging networks. Nor may LECs charge CMRS providers for number activation and use fees. In September and October of 1997, the Debtors provided notice to each of the LECs with which they do business that the Debtors would no longer be paying such charges and that the LECs should cease invoicing the Debtors for such charges, and requested that the LECs provide the Debtors with refunds of these charges that were invoiced and paid by the Debtors after the effectiveness of the FCC's orders. Certain LECs, in compliance with the FCC's orders, have ceased charging the Debtors and are cooperating with the Debtors in assessing refunds. Other LECs have refused to comply with the Debtors' request and have disagreed verbally and in writing with the Debtors' interpretation of the FCC's orders. These items are still in dispute, and it is unclear whether the FCC will maintain its current position.

Depending on further FCC disposition of these issues, the Debtors may or may not be successful in securing refunds, future relief or both, with respect to charges for termination of LEC-originated local traffic. If these issues are ultimately resolved by the FCC in the Debtors' favor, then the Debtors will pursue relief through settlement negotiations, administrative complaint procedures or both. If these issues ultimately are decided in favor of the LECs, the Debtors likely would be required to pay all past due contested charges and may also be assessed interest and late charges for the withheld amounts. For a further discussion of regulatory matters, see Section IV.G.10.

(b) *State Regulation.* As a result of the enactment by Congress of the Omnibus Budget Reconciliation Act of 1993 (the "Budget Act") in August 1993, the states are now generally preempted from exercising rate or entry regulation over any of the Debtors' operations. States are not preempted, however, from regulating "other terms and conditions" of CMRS. Thus, to the extent any states have authority to regulate "other terms and conditions" of paging service (e.g., financing regulations, hearing complaints, universal service contributions), the Budget Act does not preempt them from exercising such regulatory authority. Legislation is currently in effect in Texas requiring paging companies to contribute a portion of their taxable telecommunications revenues to a Telecommunications Infrastructure Fund created by the state legislature. Certain other states, including Alabama, Georgia, Hawaii, South Carolina and Tennessee, impose various regulations on certain paging operations of the Debtors. State regulations may require the Debtors to submit for prior approval the terms and conditions (other than rates) under which they plan to provide service or to secure approval for the issuance of securities or the entry into financing arrangements. Those states that regulate paging services also may require the Debtors to obtain prior approval of the acquisition of controlling interests in other paging companies. At this time, the Debtors are not aware of any proposed state legislation or regulations that would have a material adverse impact on the Debtors' existing operations.

9. Trademarks.

The Debtors market their services primarily under the trade name MobileComm and the federally registered mark MOBILECOMM®, except in the Greater Metropolitan Cincinnati area and in certain parts of Western Pennsylvania and Western New York, in which they market their services under the federally registered mark MOBILEMEDIA. The Debtors market their messaging services under the federally registered mark VOICESTOR®, and other services under the federally registered mark SPORTSCASTER® and the unregistered mark MOBILECOMM CITYLINK. The Debtors also own other marks that are registered with the United States Patent and Trademark Office ("USPTO"), including: DIAL PAGE, DMC DIGITAL MOBILE COMMUNICATIONS, EZ ALERT, MEMORY MANAGER, MESSAGESOFT, MOBILEMEDIA & Design, MOBILEMEDIA & Design (Globe), MOBILEMEDIA PAGING & PERSONALCOM and PAGERXTRA.

In addition, the Debtors have applications on file with the USPTO for the marks MMS and MOBILECOMM & Design.

B. The Debtors' Operations in Chapter 11

1. <u>Overview of the Debtors' Operations</u>.

Since the Petition Date, the Cases have been pending before the Honorable Peter J. Walsh, United States Bankruptcy Judge for the District of Delaware. During this period, the Debtors have functioned as debtors-in-possession pursuant to sections 1107 and 1108 of the Code and have continued to operate their business. The Bankruptcy Court has exercised supervisory powers over the operations of the Debtors with respect to the employment of attorneys, investment bankers and other professionals, and transactions out of the Debtors' ordinary course of business or otherwise requiring bankruptcy court approval under the Code. The Debtors have been paying undisputed obligations that have arisen subsequent to the Petition Date on a timely basis.

2. <u>Retention of Professionals and Appointment of Committee</u>.

(a) *The Debtors' Retention of Counsel.* As of the Petition Date, the Bankruptcy Court authorized the Debtors' retention of Sidley & Austin and Young Conaway Stargatt & Taylor, LLP, as reorganization counsel for the Debtors, and the retention of Latham & Watkins, as special counsel for the Debtors. In addition, the Debtors have retained, with Bankruptcy Court approval, the law firms of Wiley, Rein & Fielding and Koteen and Naftalin as FCC counsel, and Gerry, Friend & Sapronov LLP, as telecommunications counsel.

(b) *The Debtors' Retention of Other Professionals.* Also as of the Petition Date, the Bankruptcy Court approved the employment of Alvarez & Marsal, Inc. and Ernst & Young LLP, as restructuring advisors and accountants, respectively, for the Debtors. The Debtors' Chairman-Restructuring and Chief Financial Officer are both affiliated with Alvarez & Marsal, Inc. On July 10, 1997, the Bankruptcy Court approved the Debtors' retention of The Blackstone Group, L.P. ("Blackstone"), as financial advisors and investment bankers.

(c) *Appointment of Official Committee and the Retention of Professionals Thereby (at Debtors' expense).* On February 10, 1997, the Office of the United States Trustee for the District of Delaware (the "U.S. Trustee") appointed the Committee. The current members of the Committee are as follows:

First Trust New York National Association
State Street Bank and Trust Company
The Huff Alternative Income Fund, L.P.
  c/o W.R. Huff Asset Management Co., LLC
The Northwestern Mutual Life Insurance Company
Mountain Dew Marketing, Inc.
Intek Telecommunications, Inc.